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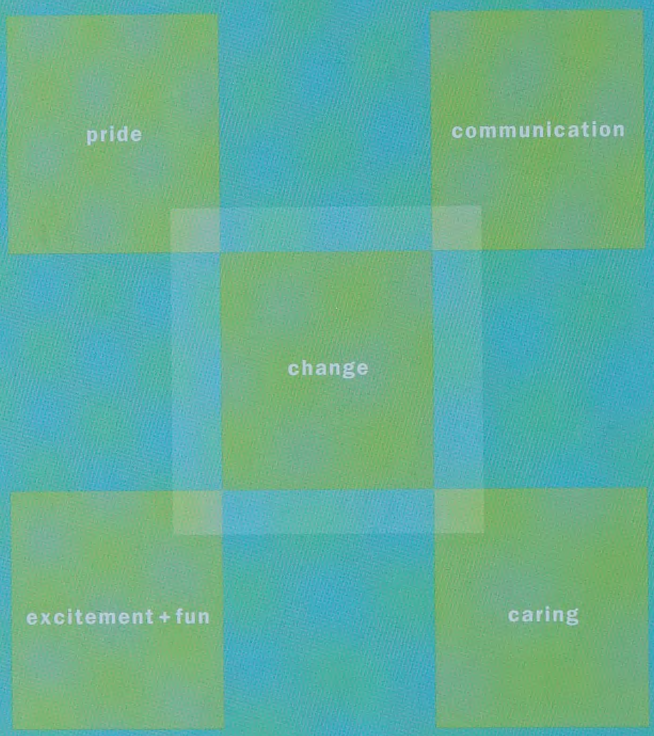
SurreyMetroSavings

Note regarding forward-looking financial statements :
This Annual Report contains forward-looking statements about the operations, objectives and expected financial performance of Surrey Metro Savings. These statements are subject to risks and uncertainties. Actual results may differ depending on a number of factors, including but not limited to, legislative or regulatory changes, competition, technological changes, interest rates and general economic conditions in British Columbia and Canada. These issues should be given careful consideration and readers should not place undue reliance on Surrey Metro Savings' forward-looking statements.


u.

our vision : Our members have told us that our superior service is the single most important reason why they bank with us, and we're building on that strength. To help measure our performance level and focus on ways to improve our service quality, we gather member feedback daily through telephone surveys and offer members the opportunity to attend member feedback sessions to provide their opinions on a variety of topics. We are delighted to report that this year's results continue to show that we provide excellent customer service. We're going to continue to set that bar higher and exceed our members' expectations at every turn. We're going to continue to live our vision to "earn the highest level of customer satisfaction in the financial services industry."

our values :

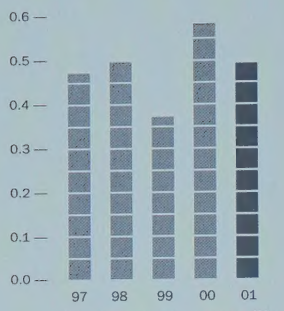


contents :

04 : highlights
06 : culture
08 : products and services
10 : community
12 : technology
14 : letter to our shareholders, members and employees
17 : performance against objectives
18 : management's discussion and analysis of financial condition and results of operations
26 : management's responsibility
26 : auditors' report
27 : consolidated balance sheets
28 : consolidated statements of income
29 : consolidated statements of retained earnings
29 : consolidated statements of cash flows
30 : notes to the consolidated financial statements
37 : quarterly financial data
38 : ten-year overview
39 : corporate governance
41 : board of directors and executive officers
41 : corporate information

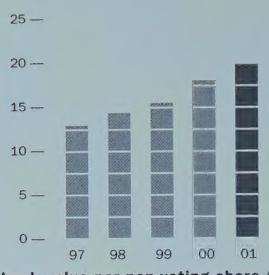
changing for you : We talk a lot about change in this industry – change driven by technology advancements, demographics and globalization. However, our most important changes are driven by you. Over the years, our focus has been not only to meet your expectations, but to exceed them. We have worked hard to enhance our financial products and service capabilities, and provide you with expert, professional financial advice.

In previous years, we added new modern branches to respond to the growing population in our trade areas. We have been at the forefront of technology advancements to keep up with the rising demand for electronic and telephone transactions. To make it in this business we must continue to offer you superb customer service, and be more competitive more often on products offered. At the same time, to remain relevant in this highly competitive industry, many credit unions across BC have come together to form larger and therefore more efficient enterprises. Like other credit unions we too have done some hard thinking about our future. Our recent merger proposal with Coast Capital Savings is designed to make us financially stronger, so that we are better positioned to serve our members, employees and communities now and in the years to come. We are very excited about the possibilities that lie ahead – the opportunity to build an even better credit union for British Columbians.



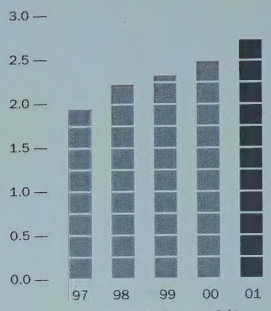
return on average assets (%)

ROAA was 0.49%, down from 0.58% in 2000. The decrease of 0.09% was partially due to the gain on sale of the insurance business in 2000.



book value per non-voting share ($)

Book value per share increased by $2.14 as a result of earnings retained and a share buy-back program.



assets (billions of $)

Asset growth was 7.1% as compared to 8.5% in 2000.

corporate highlights

Ranking number four on the Globe and Mail's "Report on Business" list of the 50 best made us not only the best company to work for in BC but also the best financial institution to work for in Canada.

profits : Surrey Metro Savings experienced another solid financial performance year with net income reaching $12.1 million.

best 50 award : For the second year Surrey Metro Savings has been ranked as one of the top five companies and the top financial institution to work for in Canada. In the Globe and Mail's "Report on Business" 2001 survey, Surrey Metro Savings moved to fourth place up from last year's fifth place ranking. The list of best-employers was expanded to 50 from 35 this year due to an increase in customer service. Only 16 of last year's companies made it onto this year's list.

change : The level of consolidation continues throughout the credit union system. Last year there were 72 credit unions in BC, down from 133 in 1985. Today we have 65. In order to remain relevant and compete within this over-supplied industry we need to come together to form larger and therefore more efficient enterprises.

Our recent proposal to merge with Coast Capital Savings represents an opportunity to build an even better credit union for our members, employees and the communities we serve, now and in the years to come. This amalgamation would bring together two well-managed credit unions who are natural partners creating a financially stronger organization which can offer members enhanced products and services, and compete more effectively more often with banks and other financial institutions.

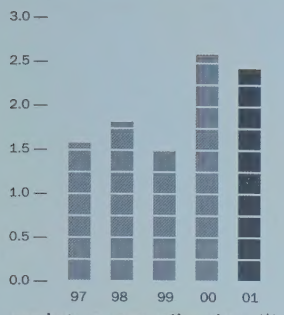
operational initiatives :

leasing : Surrey Metro Savings entered the leasing business last year with a team of experienced leasing professionals. We have made inroads into both the retail and commercial sectors of the market, establishing ourselves as a competitive alternative.

wealth management : 2001 saw the launch of our new wealth management strategy designed to meet the investment needs of our customers at every stage of their lives. Through a team of highly trained professionals — our members enjoy expert and tailored financial advice together with competitive financial products and services.

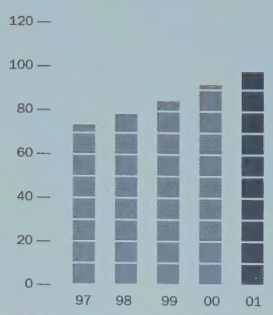
technology : In an effort to improve technology costs over the long term, Surrey Metro Savings came together with two other credit unions and Credit Union Central to form an e-commerce web site. This new site offers members better online banking services and a wide range of new tools and information to provide greater convenience and ease of use.

community support : Surrey Metro Savings is proud to have provided over $300,000 of financial assistance to support many important community initiatives and organizations. Surrey Metro Savings and its employees also donated over $147,000 to the 2001 United Way Campaign.



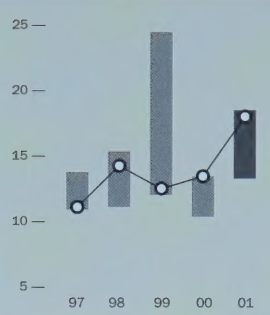
earnings per non-voting share ($)

Earnings decreased from $2.58 to $2.42. The decrease of $0.16 was partially due to the gain on sale of the insurance business in 2000.



non-voting shareholders'equity (millions of $)

Non-Voting Share Equity grew by 6.7%.



non-voting shares trading ranges ($)

O close (December 31)

financial highlights

December 31	% change	**2001**	2000
balance sheet : *(in thousands of dollars)*			
Assets	7.1	2,689,150	2,509,919
Loans	3.7	2,076,586	2,002,007
Deposits	8.6	2,576,186	2,371,623
Non-voting share equity	6.7	97,835	91,688
results of operations : *(in thousands of dollars)*			
Net interest income	5.3	58,679	55,706
Other income	-12.5	14,541	16,624
Non-interest expenses	6.4	57,244	53,796
Net income	-10.8	12,084	13,551
financial statistics :			
Operating efficiency *(in percent)*		78.18	74.38
Return on average non-voting share equity *(in percent)*		12.79	15.57
Return on average assets *(in percent)*		0.49	0.58
Earnings per non-voting share *(in dollars)*		2.42	2.58
Earnings per non-voting share fully diluted *(in dollars)*		2.28	2.42
Number of non-voting shares outstanding *(in thousands)*			
As at basic		4,872	5,110
As at fully diluted		5,169	5,446
Average basic		4,980	5,263
Average fully diluted		5,290	5,596
selected average balances : *(in thousands of dollars)*			
Assets		2,442,411	2,320,164
Loans		2,031,514	1,970,978
Deposits		2,225,616	2,022,332
Borrowings		62,385	153,462
Non-voting share equity		94,100	86,330
dividends :			
Preferred shares *(in percent)*		6.00	7.23
Non-voting shares *(in dollars)*		0.40	0.40
non-voting shares : *(in dollars)*			
High		18.50	13.45
Low		13.30	10.35
Close (December 31)		18.01	13.45
Book value (basic)		20.08	17.94

1

ranked the #1
financial institution
in Canada to work for



Jerome, Jessica, Lorie, and Gord stand proud. Surrey Metro Savings' employees give their best every day and it shows. They are the reason we were named the best financial institution to work for in Canada and the best employer in British Columbia.

For the second year Surrey Metro Savings has been named by the Globe and Mail's "Report on Business" survey as one of the top five companies and the top financial institution to work for in Canada. We moved up a notch from last year's fifth place ranking to fourth place, a movement no other company in Canada achieved. There is no doubt that receiving this award is a real honour and demonstrates a culture of listening and respect with a focus on connecting with employees about business decisions. But it's our employees who truly make this a great place to work. It's thanks to their corporate pride, strong sense of loyalty, and teamwork, that we continue to make this prestigious list. We know that our employees are critical to our success. Our members have told us that our superior service is the single most important reason why they bank with us and we are building on that strength. We're going to continue to set the bar higher and to exceed your expectations at every turn. We're going to continue to make better changes for our members – for you.

2

launching a new wealth management strategy



Meet Dominic, Financial Planner at the Surrey Metro Savings White Rock Branch. Like the rest of the team, striving hard every day to give his clients the best service possible is what it's all about. This means taking the time to get to know each client as an individual, understanding their life goals and together building a financial plan that works to meet their needs.

We know that investing and financial planning today are far more complex than just a few years ago. For example, members now have over 4,000 mutual funds to choose from compared to 300 a decade ago. This means our members require more sophisticated advice solutions tailored to suit their financial needs. Our new wealth management strategy is committed to providing more than that — unrivaled investment advice, and personalized financial solutions. The creation of dedicated investment teams working with core banking staff allows us to deliver service excellence in everything we do. Our recent partnership with Credential Group, one of Canada's leading wealth management providers allows our investment teams to back up their services with more products and options than ever before. From your daily chequing account, to the mortgage for your home, to choosing mutual fund investments or developing complex tax and retirement plans, your financial affairs will be well cared for. The innovative way in which we grow with our members, recognizing and meeting their needs is key to our continued growth and prosperity.

3

1. supporting organizations
2. strengthening our communities
3. building a stronger tomorrow



Emily and Haley are just two of many talented young dancers with the Surrey Festival of Dance. Surrey Metro Savings is very proud to be a long-time supporter of this wonderful six-week long festival that features more than 12,000 performances in ballet, highland, tap and stage, jazz and Polynesian dancing.

Together we're stronger. We're very proud of our commitment to work with and support those who are striving to make our communities a better place to live. Investing in our communities and helping to build a stronger future have been long-standing traditions at this Company. We want to continue to grow these vital partnerships. Through last year's Community Partnership Program, Surrey Metro Savings provided over $300,000 of financial assistance to more than 60 organizations and programs in the areas of arts and culture, education, sports, health, family services, seniors and the environment. But our corporate financial support is just one way we are involved in our communities. Our employee donation, together with our Company's corporate gift, enabled us to make a $147,000 gift to the 2001 United Way campaign. In addition our employees provide countless hours of volunteer work to help support many important initiatives in our communities.

4

innovative solutions provide leading edge technology



Keeping at the forefront of technology is critical to our industry. Surrey Metro Savings has always been a leader in this regard and was one of the first to adopt automated telephone banking and to create a state-of-the-art call centre. Surrey Metro Savings' Customer Services Representative, Jeff, is just one of many who relies on technology every day in his job to help provide the best possible service to members.

Think about the impacts of technology alone on your personal banking with the advent of ABMs, telephone and computer banking, and debit cards. Now think about managing in a world without these services. We know our members want state-of-the-art services and we must continue to focus on increasing our services capabilities, innovation and breadth of product offerings. The recent launch of our e-commerce web site is just one example of how we are staying at the forefront of technology through better online banking services and a wider range of new tools and information for enhanced convenience. The world of technology is also having an impact on branch design. Earlier this year our Central City Branch was redesigned to boast a modern décor, and new high-tech services to make our members' experience faster and more efficient.

letter to our shareholders, members and employees

We're very proud of the corporate culture that has become a way of life at Surrey Metro Savings. Respect, dignity, and a genuine sense of caring describe the philosophy of the staff within our organization.

The employees of Surrey Metro Savings, who have built a culture of excellence, have been saluted again. We are delighted to report that Surrey Metro Savings has ranked number 4 in the Globe and Mail's "Report on Business" 2001 Best 50 survey. This makes us the best company to work for in BC and the top financial institution in Canada.

financial performance : Net income for 2001 was $12.1 million, equal to the net income achieved in 2000, after adjusting the $13.6 million net income in 2000 for the $1.5 million resulting from the sale of the company's insurance operation. After adjusting for the gain on the insurance business, the earnings per share increased from $2.29 to $2.42. Return on average assets was 0.49% compared to 0.58% in 2000, with return on average non-voting equity at 12.79%, down from the 15.57% achieved in 2000.

Interest income year-over-year declined $2.9 million; however with interest expenses declining $5.9 million, the net interest income increased $3.0 million. Expressed as a percentage of average assets, net interest income increased to 2.40% from 2.30% year-over-year.

Exceptional credit quality keeps us well below industry standards with respect to loan loss experience. Total allowance for credit losses stood at $5.9 million at December 31, 2001, or 0.28% of total loans, compared to the 0.27% in 2000. The $2.2 million provision for credit losses in 2001 was adequate to cover actual write-offs of $1.7 million. Total assets as at December 31, 2001 were $2.7 billion, up 7.1% from $2.5 billion in 2000. Loans increased by 3.7% to $2.1 billion. Deposits grew by 8.6% to $2.6 billion. Non-voting shareholders' equity increased by 6.7% to $97.8 million. Book value per share at year-end was $20.08 up from $17.94 year over year, an increase of 11.9%. (A detailed discussion of Surrey Metro Savings' financial results is included in the Management's Discussion and Analysis section.)

As a result of increased deposit growth in the fourth quarter, we were able to reduce our Credit Union's effective tax rate below the 40% rate we had accrued during the year.

In April 2001, we received approval to proceed with a Normal Course Issuer Bid to repurchase up to 325,000 non-voting shares, representing 6.42% of our 5.066 million outstanding non-voting shares. These purchases are made through the facilities of The Toronto Stock Exchange. As at December 31, 2001, we had acquired 268,500 non-voting shares at an average price of $15.72 per non-voting share versus a year-end book value of $20.08. These purchases under book value enhance the earnings per non-voting share and the book value per non-voting share going forward. At December 31, 2001, there were 4.872 million non-voting shares outstanding, and 0.297 million non-voting share options.



Lloyd M. Craig
President and Chief Executive Officer

Tom R. Kirstein
Chairman of the Board

operational initiatives : We are constantly searching for efficiencies. The trend is away from conducting transactions in the branch, to employing the call centre and the internet delivery system. Now, debit transactions exceed that of cheques, and branch transactions account for only 12% of the total. Accordingly, we expended the majority of our capital funds to upgrade our call centre and Internet delivery channels.

While transactional volumes tend towards electronic delivery, consumers are increasingly demanding professional advice in structuring their personal finances. Throughout our 17-branch network, our new wealth management strategy was rolled out in 2001 and we are delighted with the results. We believe our new model will meet the investment needs of our customers through every stage of their lives.

We entered the leasing business in 2001 with experienced leasing personnel. We have been able to establish ourselves in the market as a competitive alternative to other organizations. We have made inroads into both the retail and commercial sectors of the market. We look to leasing, as we do commercial lending, to provide us with diversification away from the highly competitive residential mortgage business.

change : Worldwide the changes in the financial services industry have been driven by technology, regulatory change, demographics and globalization. One of the biggest areas of growth and one that has moved to the forefront of banking is technology and it will continue to change the way we do business. We have spent $19.0 million on technology over the past seven years to keep up with the growth of electronic and telephone transactions. The costs of this changing technology for each credit union to respond alone to change are prohibitive. Our system, therefore, is continually trying to catch up. Our research shows us that we have a service edge over the banks, however, we do not enjoy the size and scale of the banks. The credit union system is responding to this challenge by teaming up with other credit unions in formal business combinations.

The numbers tell the story. Last year, we had 72 credit unions in BC, down from 133 in 1985. Today we have 65, and tomorrow we will have even fewer.

We too have had to do some hard thinking about our future. To make it in this business we must continue to offer great customer service, offer the latest technology and of course provide competitive rates and services.

Our recent merger proposal with Coast Capital Savings represents an important first step towards this vision and a very exciting opportunity for our members, employees and the communities we serve. This proposal brings together two financially strong credit unions who are natural partners — partners who share the same value system, the same emphasis on good management, excellent member service, leading edge employee work environments and investment in our communities. At the same time, this proposal enables us to strengthen the credit union system and create a financially stronger institution that can better serve our members. By taking advantage of improved economies of scale and spreading the costs of technologies and investments among more members we can offer enhanced products and services, and compete more effectively more often with banks and other financial institutions. This is a tremendous opportunity to combine our credit unions and maintain the co-operative values upon which we were founded.

supporting our communities : Providing support to the communities we serve is a role that Surrey Metro Savings continues to take very seriously. Once again this year, through our Community Partnership Program, the Company provided over $300,000 to support 60 community-based organizations.

We provided funding to support events and projects in the areas of arts and culture, education, sports, health, family services, seniors and the environment. Included among these sponsorships were the Surrey Family YMCA, Langley Ukulele Ensemble, Parade of Lights Festival in White Rock, and the Surrey Hospice Society. We also provided 20 scholarships for post-secondary education.

In addition to corporate sponsorships, $124,000 was raised through employee contributions to support the 2001 United Way Campaign. Coupled with the Credit Union's corporate gift of $23,000, we raised $147,000 this year, continuing our long-standing tradition of support to this worthy organization. Our employees also provide support to our communities through countless hours of volunteer time.

board of directors : We work with a Board of Directors elected by the members to represent the interests of all stake-holders. The Board is exceptionally talented, dedicated, and diverse and plays a vital role in working with management in shaping policy.

In 2001, Bruce Chapman completed his third consecutive term, and under the credit union governance rules was obliged to resign from the Board. We wish to thank Mr. Chapman for his dedication and contributions over his nine years, the last three spent as Chairman of the Board. Elected to the Board in May 2001 was Marvin Shaffer. Re-elected to the Board were Tom Kirstein and Frank Harper. Mr. Kirstein was first elected to the Board in 1987 and Mr. Harper in 1995. Elected to the Board's Executive Committee were Tom Kirstein, Chairman; Frank Harper, Senior Vice Chairman; and Douglas Stone, Vice Chairman. The Board is commended for its time, diligence, vision and good council.

looking ahead : Surrey Metro Savings views the year ahead with much optimism. With low interest rates, a buoyant real estate market, lower personal income taxes, and the worst part of the recession behind us, the stage is set for another strong and profitable year for Surrey Metro Savings.

Our employees remain committed to providing the highest level of customer satisfaction in the financial services industry. Our members tell us over and over again that the service they receive from our staff is second to none. With such an engaged and inspired workforce, we are confident that 2002 will be another successful year.



Lloyd M. Craig
President and Chief Executive Officer



Tom R. Kirstein
Chairman of the Board

performance against objectives

	objectives :	performance :
deposit growth	Increase deposits by $72 million	$205 million
loan growth	Increase total loan portfolio by $103 million	$75 million
capital	Attain BIS capital level of 10.0% of risk-weighted assets	9.30%
profitability	Achieve $12.2 million net income	$12.1 million
return on average assets	Achieve an after-tax return of 0.53% on average assets	0.49%
return on average non-voting equity	Achieve return on average non-voting equity of 11.27%	12.79%
non-interest expenses	Non-interest expenses to be no greater than 2.18% of average assets	2.34%
earnings per non-voting share (basic)	Achieve earnings per non-voting share of $2.33	$2.42

management's discussion and analysis

of financial condition and results of operations

This section of the Annual Report contains details of the operations and financial condition of Surrey Metro Savings (SMS). It also provides a discussion of how SMS manages credit, liquidity, and interest rate risks, as well as information on its capital structure.

introduction : SMS successfully competes with banks, trust companies, credit unions, and other financial institutions in its market area by providing a high level of member service and product quality. Its primary business focus is on attracting retail deposits from members in the Fraser Valley region of British Columbia and using this deposit base to fund a loan portfolio primarily comprised of residential, first-mortgage loans.

SMS is a well-established financial institution with a 54-year history of serving the Fraser Valley region, historically one of the fastest growing areas in Canada. The population growth in the Fraser Valley and SMS's ability to compete successfully with other financial institutions have enabled SMS to achieve asset growth without deviating from its conservative strategy of funding residential first-mortgage loans primarily with retail deposits.

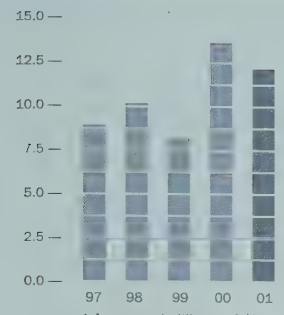
overview of 2001 : Net income for 2001 was $12.1 million, down 10.8% from $13.6 million achieved in 2000. Earnings per share for 2001 were $2.42, compared with $2.58 in 2000. Included in the 2000 earnings was a gain of $1.5 million, or $0.29 per share, from the sale of the insurance agency assets and business of Metro Insurance Services Ltd. (MIS). Return on average assets was 0.49% in 2001, compared to 0.58% in 2000 or 0.52% before the asset sale of MIS. Return on non-voting share equity was 12.79% in 2001, compared to 15.57% in 2000 or 13.89% before the asset sale of MIS.

The number of preferred shares (with a $1 par value as required by statute for membership) was 10,024,004 as at December 31, 2001. As prescribed by the Canadian Institute of Chartered Accountants, these preferred shares are classified as liabilities. However, these shares are a part of SMS's capital calculations, as permitted by the Superintendent of Financial Institutions of British Columbia.

On April 25, 2001 SMS received approval to proceed with a Normal Course Issuer Bid to repurchase up to 325,000 non-voting shares. In 2001, SMS acquired 268,500 non-voting shares through the facilities of The Toronto Stock Exchange at an average price of $15.72 per share versus a book value of $20.08 as at year-end, reducing the number of non-voting shares (basic) outstanding to 4,872,165, down from 5,109,894 as at December 31, 2000. The normal course issuer bid expires on April 29, 2002.

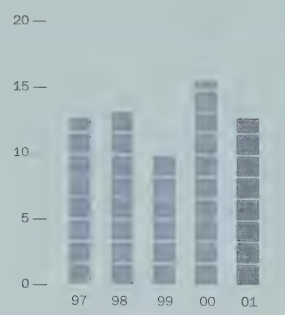
Assets grew in 2001 by 7.1%, compared with 8.5% for 2000. The increased rate of asset growth was primarily attributable to deposit-gathering activities. Total assets at year-end were $2.7 billion, up from $2.5 billion in 2000. Total loans were $2.1 billion, up 3.7% from $2.0 billion in 2000. Total deposits were $2.6 billion, an increase of 8.6% from $2.4 billion in 2000. Net interest income was $58.7 million, up from $55.7 million in 2000.

Other income was $14.5 million, versus $16.6 million for the previous year (or $14.7 million excluding the $1.9 million pre-tax gain from the asset sale of MIS). Non-interest expenses increased to $57.2 million in 2001, compared with $53.8 million in 2000.



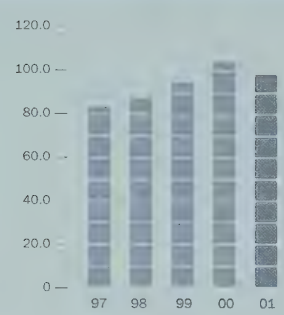
net income (millions of $)

The decreased earnings were largely due to the gain on sale of the insurance business in 2000.



return on average non-voting equity (%)

ROAE decreased from 15.57% to 12.79%. The decrease was partially due to the sale of the insurance business in 2000.



interest expense (millions of $)

Lower interest rates in 2001 lowered deposit costs.

net interest income : Interest income is the major source of revenue for SMS. In 2001, SMS earned interest income of $156.6 million from borrowers on their loans and from cash resources. This represents a decrease of $2.9 million over 2000. Interest expense, which represents amounts paid by SMS on member deposits and corporate borrowings totalled $97.9 million, a decrease of $5.9 million over 2000. Both decreases are a result of the general decline in interest rates throughout 2001.

Net interest income represents the difference between interest income and interest expense. Net interest income for 2001 was $58.7 million, compared with $55.7 million for 2000. Net interest income, as a percentage of average assets was 2.40% for 2001, compared with 2.30% for 2000. The increase in net interest income was due to more deposits repricing at lower interest rates than loans or cash resources. As well, in 2001, a new division, Metro Leasing and Financing was launched. This division has enhanced our net interest income by providing a full range of asset-based financing services to both commercial and retail members. SMS's net interest income has been positively affected as both a result of leasing and a general increase in commercial lending activity.

analysis of net interest income :

(in thousands of dollars)	**2001** Average Balance	Mix (%)	Interest	Interest Rate (%)	2000 Average Balance	Mix (%)	Interest	Interest Rate (%)
Cash resources	363,750	15	13,276	3.65	319,848	14	15,096	4.72
loans :								
Residential	1,493,754	62	100,322	6.72	1,476,581	64	100,977	6.84
Commercial	329,220	13	25,847	7.85	299,152	13	22,862	7.64
Personal	79,579	3	6,985	8.78	70,594	3	6,844	9.69
Lines of credit	128,961	5	10,143	7.87	124,651	5	11,401	9.15
Total loans	2,031,514	83	143,297	7.05	1,970,978	85	142,084	7.21
Other	46,150	2	–	–	29,338	1	–	–
Total	2,441,414	100	156,573	6.41	2,320,164	100	157,180	6.77
deposits :								
Demand	320,310	13	3,123	0.97	290,594	13	4,123	1.42
Term	1,332,883	55	62,227	4.67	1,180,812	51	60,288	5.11
RRSP	572,423	23	27,341	4.78	550,926	24	27,291	4.95
Total deposits	2,225,616	91	92,691	4.16	2,022,332	87	91,702	4.53
Borrowings	62,385	3	4,519	7.24	153,462	7	11,201	7.30
Subordinated notes	7,693	–	684	8.98	10,000	–	907	8.98
Other	51,620	2	–	–	48,040	2	–	–
Shareholders' equity	94,100	4	–	–	86,330	4	–	–
Total	2,441,414	100	97,894	4.01	2,320,164	100	103,810	4.47
Net interest income			58,679	2.40			53,370	2.30

other income : Other income is all income that is not interest related. This includes items such as service charges for retail banking services, creditor insurance commissions, foreign exchange income, Visa fees, and mutual fund commissions. SMS encourages a "user pay" philosophy as much as possible, especially in relation to its deposit accounts and financial services, and reviews service charges annually to ensure adequate returns while maintaining market competitiveness. During 2001, SMS made minor changes to its service charges. Other income decreased by 12.5% to $14.5 million compared to $16.6 million in 2000 or 1.2% decrease from $14.7 million excluding the gain on the asset sale of MIS in 2000.

non-interest expenses : Non-interest expenses represent all costs that are not interest-related, excluding provisions for credit losses and income taxes. It includes staff salaries and benefits, occupancy, data processing, marketing, deposit insurance assessments, Credit Union Central of British Columbia (CUCBC) dues, and provincial capital taxes, among other items. Total non-interest expenses were $57.2 million, a $3.4 million or 6.4% increase over 2000. Non-interest expenses represented 2.34% of average assets in 2001, compared with 2.32% of average assets in 2000.

Staffing costs, including incentives grew by $1.0 million or 3.8%, as compared to $1.4 million or 5.5% in 2000. The incentives program is reviewed by the Board of Directors on a regular basis and can be revised to reflect prevailing economic conditions.

Occupancy costs remained unchanged over 2001. General expenses increased by $2.5 million or 13.0% as a result of information technology initiatives.

capital expenditures/premises and equipment : In 2001, SMS experienced capital expenditures as a result of facility renovations and capital replacements and enhancements.

year ended December 31 *(in thousands of dollars)*

	2001	2000
Building renovation and improvements	1,294	334
Leasehold improvements	553	173
Computer equipment/software	2,516	4,536
Furniture and equipment	1,139	290
Total	5,502	5,333

(Does not include assets disposals.)

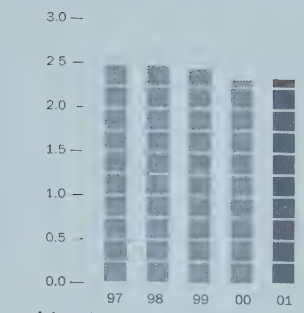
risk management : Risk management is an ongoing and continuous process, with the goal of achieving consistent optimal earnings over the long term. All of SMS's investment and loan policies, including risk management, are reviewed annually by the Board of Directors, and the Superintendent of Financial Institutions of British Columbia reviews any changes to previously approved policies for prudence. The Board of Directors also reviews monthly reports on liquidity, interest rate risk, credit loss provisions, delinquent and impaired loans, regulatory capital, and financial performance. There are three principal areas of risk that SMS monitors and manages: interest rate risk, credit risk, and liquidity/investment risk.

interest rate risk/matching assets and liabilities : Interest rate risk represents the effect that changes in interest rates can have on SMS's financial position. Interest rate risk arises when there is a difference in the amount of assets and liabilities that mature within a similar period.

While the high proportion of residential first-mortgages provides a stable asset base, like any other financial institution, SMS's annual profitability depends to a considerable extent on its ability to manage the maturities and yields of its assets against the maturities and costs of its liabilities.

SMS closely manages its interest rate risk through various strategies designed to optimize the return to SMS of differences between deposit and loan rates for different maturities. An asset and liability management committee (ALCo) comprised of the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, vice presidents, and other senior managers, meets monthly to review and monitor asset and liability-related activities and initiate policy changes where necessary. A sub-committee of the group meets weekly.

The differentials shown in the table on the following page for different maturities can change from one year to the next and to some extent are dependent on the interest rate expectations held by the mortgage, loan, and deposit members of SMS. As previously noted, this information is monitored by management on a weekly basis to ensure early identification of any trends that are developing, or any differentials that are becoming materially large. Through computer modeling techniques, SMS determines its interest rate risk on a monthly basis. The modeling determines the effect that rising or falling interest rates would have on pretax income and market value over the next 12 months. If the interest rate risk is approaching a level above policy guidelines, the largest differentials are reduced through either conventional means, such as deposit drives and the sale of mortgages, or through so-called synthetic means by employing derivative instruments such as interest rate swaps. As at year-end, there were no interest rate swaps in place.



non-interest expenses to average asset ratio (%)

Non-interest expenses as a percentage of average assets increased slightly from 2.32% to 2.34%.

The following table shows the matching of maturities of the assets and liabilities of SMS at December 31, 2001, as well as those at December 31, 2000.

asset and liability maturities :
years ended December 31 *(in thousands of dollars)*

	2001			2000		
	Assets	Liabilities	Differential	Assets	Liabilities	Differential
interest sensitive :						
Maturing within 1 year	1,449,154	1,943,848	494,694	1,181,841	1,769,722	587,881
maturing between :						
1 – 2 years	305,997	177,482	(128,515)	338,398	259,831	(78,567)
2 – 3 years	382,484	147,075	(235,409)	355,850	107,767	(248,083)
3 – 4 years	221,628	104,944	(116,684)	323,949	76,932	(247,017)
4 – 5 years	260,474	163,715	(96,759)	237,337	151,693	(85,644)
6 – 10 years	26,139	–	(26,139)	26,583	–	(26,583)
Non-interest bearing items[1]	43,274	152,086	108,812	45,961	143,974	98,013
	2,689,150	2,689,150	–	2,509,919	2,509,919	–

[1] Assets include cash, accrued interest receivable, premises and equipment and other items. Liabilities include accrued interest payable and other items.

Rapidly rising interest rates can negatively impact SMS's net interest income, as a large portion of SMS's liabilities will reprice before many of its assets can do the same. Most financial institutions tend to deem a prudent level of asset/liability mismatching to be necessary in order to improve profitability. The challenge is to find the level of mismatch that will optimize net interest income without unduly increasing risk in the event of rapid changes in interest rates.

credit risk : SMS's system for controlling the risk of borrowers defaulting on loan obligations is based upon strict adherence to clearly defined credit policies and credit approval procedures. Authority for loan approval to specified limits is granted to officers within each branch by the Chief Executive Officer, with the guidelines reviewed annually by the Board of Directors. Loan approval limits are established based upon the experience and qualifications of the individuals involved. If a proposed loan is beyond the lending limit prescribed for branch management, it is forwarded to the Manager, Retail Credit, or the Vice President, Credit, depending on the size of the loan. If a loan is beyond the internal lending limit prescribed for the Vice President, Credit, it is submitted to the loans committee (comprised of senior lending managers) and either approved at this level or further recommended for approval to the management credit committee (comprised of the Chief Executive Officer and other executive officers).

New lending in each branch is reviewed annually to ensure adherence to policy guidelines and general credit quality. Loans requiring collection are removed from the branch level and centralized for further follow-up in the Retail Credit Department.

liquidity/investment risk : As required by the Financial Institutions Act of British Columbia (FIA), 10% of SMS's total deposits and borrowings are held at CUCBC in a liquidity portfolio comprised of deposits with maturities ranging from overnight to one year. The CUCBC deposits provide yields similar to those of Government of Canada Treasury Bills. In addition to the liquidity portfolio held at CUCBC, SMS maintains excess liquidity. SMS's goal is to maintain a total liquidity portfolio of 10.5% to 12.5% of total deposits and borrowings.

It is management's view that a total liquidity portfolio between 0.5% and 2.5% in excess of that required by the FIA provides a prudent margin of liquidity over the 10% statutory requirement, without unduly impairing SMS's return on assets.

SMS's investment policy specifies the minimum rating, maximum term, and certain single investment exposures for investments made with excess liquidity. In general, excess liquidity is invested in money market instruments that are rated R-1 low or higher and mature in less than one year. At December 31, 2001, SMS's liquidity was 21.2% of total deposits and borrowings, as compared to 18.8% in 2000.

loans : Total loans as at December 31, 2001 were $2.1 billion, compared with $2.0 billion at the previous year-end, an increase of 3.7%.

SMS aggressively competes for, and is a major holder of, residential first mortgages in the Fraser Valley region. It grants mortgages to individuals according to conventional mortgage-lending standards for residential properties. SMS offers closed fixed-rate mortgages, open variable-rate and fixed-rate mortgages, written with terms of 6 months to 10 years.

At December 31, 2001, SMS's portfolio of residential mortgage loans remained unchanged at $1.5 billion, representing 72.1% of total loans outstanding, compared with 74.6% of the total loans at December 31, 2000. Net growth of individual mortgage loans over 2000 was 0.3%.

Personal loans to members include installment loans, demand loans, retail leases and lines of credit. SMS also offers a menu of Visa credit cards through arrangements with Community Card Services. Under the arrangement, SMS does not carry the receivables owing from its credit card holders but earns a fee based on the total net purchases generated by its credit card holders, as well as a per card fee.

At December 31, 2001, SMS had a personal loan portfolio of $205 million representing 9.8% of total loans outstanding, compared with $188 million representing 9.4% of total loans at December 31, 2000.

Commercial lending consists primarily of first-mortgage loans to small and medium-sized businesses for real estate projects in the Lower Mainland region. The types of mortgages offered are similar to residential mortgages, except the maximum term is limited to five years. Although SMS also conducts other forms of commercial lending, including commercial leases, these constitute a small portion of the commercial loan portfolio.

At December 31, 2001, SMS's commercial loan portfolio totalled $377 million, representing 18.1% of total loans outstanding, compared with $320 million, representing 16.0% at December 31, 2000. Net growth of commercial loans was 17.7%.

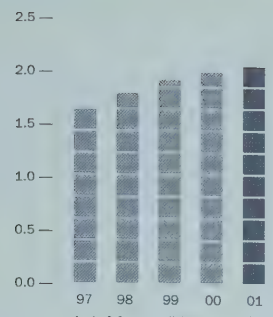
SMS maintains conservative lending policies and holds no foreign loans. SMS's policy limits commercial lending to a maximum of 20% of its total assets and the maximum loan exposure to any one borrower to an amount which is the lesser of $10.0 million or 10% of SMS's aggregate share capital, retained earnings and subordinated notes. SMS has no loans outstanding which exceed its internal limit. This limit is included in SMS's internal investment and lending policy, which is reviewed annually by the Superintendent of Financial Institutions of British Columbia.

loan portfolio :

As at December 31	Number	Total[1] in millions of dollars	In percent	Average in thousands of dollars
individuals :				
mortgages :				
Conventional	8,012	936	45.1	117
Revenue	568	63	3.0	111
Progressive	73	16	0.8	219
Insured	2,445	344	16.6	141
SMS high-ratio	883	139	6.7	157
Subtotal mortgages	11,981	1,498	72.2	125
other :				
Retail leasing	328	5	0.2	15
PCL[2] (mortgage secured)	1,407	70	3.4	50
PCL[2] (other)	19,312	54	2.5	3
Personal loans	8,643	76	3.7	9
Subtotal other	29,690	205	9.8	7
Subtotal individuals	41,671	1,703	82.0	41
commercial :				
Commercial loans	1,030	358	17.2	348
Commercial leasing	281	16	0.8	57
Subtotal other	1,311	374	18.0	285
Subtotal individuals and commercial	42,982	2,077	100.0	
Accrued interest		6		
Total loan portfolio	42,982	2,083		48

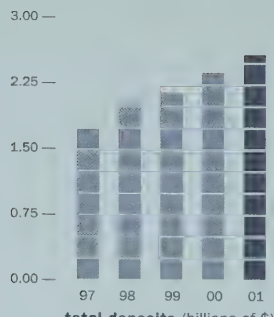
[1] Before allowance for credit losses. [2] Personal Line of Credit.

allowance for credit losses : SMS has an established policy of providing an allowance to cover potential credit losses. It is reviewed on an ongoing basis and if potential credit losses are identified, a specific allowance is established. In 2001, provision for credit losses were $2.2 million, as compared to $1.8 million in 2000. SMS's total allowance for credit losses increased to $5.9 million or 0.28% of total loans. As at December 31, 2000, the total allowance for credit losses was $5.3 million, representing 0.27% of total loans. These allowances are after loan write-offs of $1.7 million in 2001, compared to $1.5 million in 2000.



total loans (billions of $)

Loan growth was 3.7% in 2001.



total deposits (billions of $)

Deposits grew by 8.6% in 2001 compared to 11.1% in 2000.

asset quality coverage :

as at December 31 *(in thousands of dollars)*	**2001**	2000	1999	1998	1997
Total loans	2,076,949	2,002,007	1,928,833	1,803,044	1,668,350
Provision for credit losses (PCL)	2,244	1,800	2,000	2,331	1,190
Loan write-offs	1,650	1,489	1,618	852	1,040
Total allowance	5,918	5,324	5,013	4,631	3,152
Impaired loans	7,253	7,054	3,197	4,124	3,845
Non-voting share equity (NVSE)	97,835	91,688	84,146	78,123	73,147
(in percent)					
PCL as % of total loans	0.11	0.09	0.10	0.13	0.07
Loan write-offs as % of total loans	0.08	0.07	0.08	0.05	0.06
Impaired as % of total loans	0.35	0.35	0.17	0.23	0.23
Impaired as % of NVSE	7.41	7.69	3.80	5.28	5.26
Total allowance as % of impaired loans	81.59	75.47	156.80	112.29	81.98
Total allowance as % of total loans	0.28	0.27	0.26	0.26	0.19

deposits : Total deposits as at December 31, 2001 were $2.6 billion, compared with $2.4 billion for the previous year, an increase of 8.6%. Agency and institutional deposits accounted for $883 million or 34.3% of total deposits in 2001, as compared to $723 million or 30.5% in 2000. Retail deposit growth remained challenging throughout the year due to competition from other financial institutions and mutual funds.

SMS offers a full range of personal deposit services and products, including chequing accounts, savings accounts, and term deposits. All deposit accounts are in Canadian funds, with the exception of a special United States dollar investment chequing account. SMS also provides special benefit packages on some of its accounts for individuals aged 59 and over or 18 and under. SMS is also active in the registered retirement savings plan (RRSP) market, offering term and variable RRSPs and registered retirement income funds (RRIFs).

At December 31, 2001, total demand deposits, including preferred shares, represented 13.4% of total deposits, compared with 12.0% in the previous year. Term deposits represented 62.1%, compared with 64.1% in 2000, and term registered savings plans represented 22.6%, compared with 23.9% in 2000.

SMS is an aggressive competitor for deposits. SMS continues to develop innovative and competitive marketing strategies. In 2001 the registered savings plans portfolio increased by $30.5 million, compared with a $6.7 million increase in 2000. These deposits are part of a term portfolio which represented 84.7% of the total deposit base as at December 31, 2001, compared with 86.4% in 2000. Term deposits are the most suitable for matching SMS's mortgage lending.

SMS also actively markets mutual funds. These funds provide SMS members with another investment option and provide SMS with an alternative source of fee income. As at December 31, 2001, SMS had mutual funds under administration for its members totalling $199.0 million, as compared to $190.5 million as at December 31, 2000.

borrowings : SMS has arrangements with several financial institutions for a $115 million syndicated loan. As well, SMS has a facility with another financial institution for $50 million.

Both loan facilities are subject to standby fees and may be drawn down at any time. In addition to these facilities, SMS maintains a substantial loan facility with CUCBC. Outstanding amounts under all three facilities fluctuated in the normal course of business during the past year. As at year-end, total outstanding amounts were Nil, down from $25 million in 2000.

capital : SMS's capital requirements are regulated by the Financial Institutions Commission (FICOM) using the risk-weighted approach developed by the Bank for International Settlements (BIS). FICOM established a minimum capital standard based on a ratio of capital-to-risk-weighted assets of 8%. At least 50% of a credit union's capital base, for the purpose of meeting the standard, must consist of primary capital, known as Tier 1, comprised of non-voting shares, contributed surplus, preferred shares, and retained earnings, less intangible assets, and future income taxes. Secondary capital, known as Tier 2, includes subordinated notes and 50% of a credit union's portion of retained earnings in the Credit Union Deposit Insurance Corporation (CUDIC), CUCBC, and Stabilization Central Credit Union (Stab Central). A credit union's assets are weighted according to six categories of relative risk ranging from 0% to 150%. Residential mortgages, which form the majority of the assets of SMS, are risk-weighted at 50%.

As at December 31, 2001, SMS had a total capital ratio of 9.3%, down from the 9.6% held in 2000. The primary reasons for this decline was the repayment of subordinated notes in the amount of $10.0 million, the reduction in retained earnings of $4.2 million due to the Normal Course Issuer Bid, and asset growth of $180 million.

The following tables show the levels of SMS's capital and its risk-weighted assets under the BIS requirements :

tier 1 and 2 capital :

as at December 31 *(in thousands of dollars)*	**2001**	2000
tier 1 capital		
Non-Voting shares	24	25
Contributed surplus	585	296
Preferred shares	10,024	9,356
Retained earnings	97,226	91,367
	107,859	101,004
Less: Intangible assets	(1,188)	(3,079)
Future income taxes	(3,200)	(1,445)
	103,471	96,520
tier 2 capital		
Subordinated notes	–	10,000
Portion of equity in CUCBC,CUDIC, and Stab Central[1]	15,352	14,007
	15,352	24,007
total capital	118,823	120,527

[1] Represents 50% of the total amount of SMS's portion.

alliances : In 2001, Inventure Solutions Inc. (Inventure) was created to provide technology support to its shareholders. Inventure is providing the platform through which SMS is able to enhance its financial products and services while providing corporate operating efficiencies. SMS's ownership of 30% is shown in other assets.

In 2001, Inovera Solutions Joint Venture was created to provide new web-based financial services. This venture is accounted for using the proportionate consolidation method. CUCBC, a partner in this venture, has expressed an interest in the acquisition of SMS's ownership of 28.6%. It is likely that a sale agreement will be concluded in 2002.

risk-weighted assets :

as at December 31 *(in thousands of dollars)*	**2001** Balance Sheet Amount	2000 Balance Sheet Amount	BIS Risk Weight (%)	**2001** Risk Weighted Balance	2000 Risk Weighted Balance
Cash resources	418,644	283,913	–	–	–
Commercial paper	145,598	182,566	0-100	80,742	97,255
Residential mortgages	1,085,244	1,163,165	50	542,622	581,582
Insured mortgages	343,363	272,524	–	–	–
High-ratio mortgages	138,986	122,301	100	138,986	122,301
Personal loans	129,790	124,485	0-80	93,435	90,192
Commercial loans and leasing	379,203	319,532	100	379,203	319,532
Revenue property	2,696	2,377	150	4,044	3,566
Other assets/investments	45,626	39,056	100	45,626	39,077
	2,689,150	2,509,919		1,284,658	1,253,505

	2001	2000
ratio of capital to risk-weighted assets : *(in percent)*		
Tier 1 capital to risk-weighted assets	8.2	7.7
Tier 2 capital to risk-weighted assets	1.1	1.9
	9.3	9.6

outlook

loans and deposits : Historically low interest rates will continue to stimulate activity in the real estate market and consequently management expects mortgage and commercial lending, as well as leasing activity, to show improved growth in 2002.

Volatility in North American stock markets will continue to have a positive impact on SMS's deposit-gathering activities as investors become disenchanted by lower mutual fund returns. Again, the only dampening effect could be the low interest rates that SMS is able to offer its customers on deposit products. SMS will continue exploring new innovative deposit products with the objective of attracting new customers and diversifying its overall funding resources.

liquidity : SMS is targeting liquidity to be in the range of 10.5% to 12.5% of total deposits and borrowings throughout 2002. In management's opinion, this margin above the 10.0% statutory minimum, together with the ability to access its loan facilities and to sell mortgages, will provide adequate liquidity for normal operations.

income : Based on the current level of interest rates, SMS is anticipating net interest income to improve in 2002. However, if interest rates continue to decline, net interest income will be impacted by margin compression as lending rates move lower while interest rates on SMS's demand or shorter-term deposits cannot be reduced any further.

Provisions for credit losses in 2002 are not expected to change significantly from 2001.

Current income tax legislation provides that British Columbia corporations are taxed at rates as high as 40.6%. Credit unions can reduce normal corporate income tax rates through a special income tax rate reduction that is based upon the relationship between the level of deposits and accumulated pretax earnings that were previously taxed at the reduced rates. Due to the projected deposit growth expected in 2002, SMS may not receive this tax rate reduction on portions of its 2002 taxable income, and accordingly, is increasing its provision for income taxes to 40% for fiscal 2002. In the event that deposit growth returns to historic levels, SMS will be able to reduce its income tax rate from the projected rate of 40%.

With our focus on wealth management and commitment to improve operating efficiencies, we believe that 2002 will produce solid financial results.

Looking forward into 2002, we are prepared for any challenges that may arise.

subsequent event : On March 4, 2002, SMS entered into a Letter of Intent (the "Letter") with Coast Capital Savings Credit Union (CCS). The transaction contemplated by the Letter is a business acquisition by asset transfer under section 16 of the Credit Union Incorporation Act of British Columbia in which CCS acquires all of the rights, property and assets and assumes all of the obligations and liabilities of SMS.

The Letter provides for each holder of SMS' non-voting shares to receive $21 per share in cash on closing. The membership shares of SMS will be exchanged for shares in CCS.

Completion of the transaction contemplated by the Letter is contingent upon satisfaction of certain conditions contained in the Letter including negotiation and execution of a definitive business combination agreement in respect of the transaction, the receipt of requisite regulatory, creditor and other third party approvals, and the approval by the members and non-voting shareholders of SMS.

The Letter and an agreement dated February 6, 2002, provide that if either party fails to proceed with the business combination for any reason other than satisfaction of certain conditions referred to above, then the party failing to proceed will be required to pay to the other party $1,500,000 plus the other party's legal, consulting, advisory and other out-of-pocket expenses.

The definitive business combination agreement will preserve a fiduciary out in favour of the board of SMS in the event of an unsolicited superior transaction.

Assuming receipt of all requisite member, shareholder, regulatory, creditor and third party approvals and consents, the transaction is expected to close at the end of June 2002.

management's responsibility and auditors' report

management's responsibility :

The consolidated financial statements and all other information contained in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with the requirements of the Credit Union Incorporation Act and appropriate generally accepted accounting principles in Canada and include amounts based on informed judgements and estimates of the expected effects of current events and transactions. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the reliability of financial data, management relies on comprehensive internal accounting, operating and system controls. Controls include an organizational structure providing for effective segregation of responsibilities, delegation of authority and personal accountability, and careful selection and training of personnel; the application of accounting and administrative policies and procedures necessary to ensure adequate internal control over transactions, assets and records, as well as a continued program of extensive internal audits. These controls are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition. The Board of Directors has appointed an Audit Committee, comprised of three Directors, to review with management and auditors the annual financial statements prior to submission to the Board of Directors for final approval.

Grant Thornton LLP has been appointed by the membership as independent auditors to examine and report on the consolidated financial statements and their report follows. They have had full and free access to the internal audit staff and the Audit Committee of the Board.



Lloyd M. Craig
President and Chief Executive Officer



Hermann G. Bessert
Chief Financial Officer

auditors' report :

To the Members and Shareholders
of Surrey Metro Savings Credit Union.

We have audited the consolidated balance sheets of Surrey Metro Savings Credit Union as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the credit union as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.



Chartered Accountants
New Westminster, Canada

February 8, 2002, except as to Note 19 which is as of March 4, 2002.

consolidated balance sheets :

December 31 *(in thousands of dollars)*	Note	2001	2000
assets :			
Cash resources	2	564,242	466,479
Loans	3	2,076,586	2,002,007
Other	4	28,734	19,350
Premises and equipment	5	19,588	22,083
		2,689,150	2,509,919
liabilities :			
Deposits	6	2,576,186	2,371,623
Other	7	15,129	11,608
Borrowings	8	–	25,000
		2,591,315	2,408,231
Subordinated notes	9	–	10,000
shareholders' equity :			
Share capital	10	609	321
Retained earnings	11	97,226	91,367
		97,835	91,688
		2,689,150	2,509,919
Commitments	15		

See accompanying notes to the consolidated financial statements.

On behalf of the Board



Director



Director

consolidated statements of income :

years ended December 31 *(in thousands of dollars, except per share amounts)*	Note	2001	2000
interest income :			
Loans		143,297	144,421
Cash resources		12,446	13,790
Other		830	1,306
		156,573	159,517
interest expense :			
Deposits		92,691	91,702
Borrowings		5,203	12,109
		97,894	103,811
net interest income		58,679	55,706
provision for credit losses		1,898	1,546
		56,781	54,160
other income	12	14,541	16,624
		71,322	70,784
non-interest expenses :			
Salaries and employee benefits		28,856	27,808
Occupancy		6,629	6,739
General	13	21,759	19,249
		57,244	53,796
net income before income taxes		14,078	16,988
provision for income taxes	14	1,994	3,437
net income		12,084	13,551
average number of non-voting shares *(in thousands)*		4,980	5,263
earnings per non-voting share :			
Basic		2.42	2.58
Fully diluted		2.28	2.42

See accompanying notes to the consolidated financial statements.

consolidated statements of retained earnings :

years ended December 31 *(in thousands of dollars)*	**2001**	2000
Beginning of year	91,367	83,827
Net income	12,084	13,551
Redemption of non-voting shares	(4,227)	(3,870)
Dividends on non-voting shares	(1,998)	(2,141)
End of year	97,226	91,367

consolidated statements of cash flows :

years ended December 31 *(in thousands of dollars)*	**2001**	2000
Cash resources provided by (used in)		
operating activities :		
Net income	12,084	13,551
Adjustments to determine cash flows :		
Amortization of premises, equipment and goodwill	3,764	4,285
Future income taxes	(1,755)	340
Provision for credit losses	1,898	1,546
Changes in accrued interest receivable and payable	(748)	4,399
Changes in other non-cash operating items	342	1,241
	15,585	25,362
financing activities :		
Increase in deposits, net	206,051	231,803
Decrease in borrowings, net	(25,000)	(50,000)
Decrease in subordinated notes	(10,000)	–
Repurchase of non-voting shares, net	(3,939)	(3,866)
Dividends on non-voting shares	(1,998)	(2,141)
	165,114	175,796
investing activities :		
Increase in loans, net	(77,217)	(74,162)
Purchase of premises and equipment, net	(1,269)	(5,223)
Increase in other assets	(4,450)	(704)
	(82,936)	(80,089)
increase in cash resources :	97,763	121,069
cash resources, beginning of year :	466,479	345,410
cash resources, end of year :	564,242	466,479

supplemental disclosure of cash flow information :		
Interest received during the year	162,298	156,076
Interest paid during the year	99,441	98,286
Income taxes paid during the year	3,004	2,527

See accompanying notes to the consolidated financial statements.

notes to the consolidated financial statements

December 31, 2001 and 2000 (all tabular amounts are in thousands of dollars, except per share amounts)

governing legislation and operations : Surrey Metro Savings Credit Union (SMS) is incorporated under the Credit Union Incorporation Act of British Columbia; the operation of SMS is subject to the Financial Institutions Act of British Columbia. SMS serves members principally in the Fraser Valley region of British Columbia.

1. significant accounting policies : These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting practices. In preparing these consolidated financial statements management has made estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

basis of consolidation : The consolidated financial statements include the assets, liabilities and results of operations of SMS and its wholly owned subsidiaries, Metro Financial Ltd. and Shoreline Projects Ltd. The investment in the Inovera Solutions Joint Venture is accounted for using the proportionate consolidation method, whereby SMS's share of assets, liabilities, revenue and expenses are included in the consolidated financial statements.

loans : Loans are stated at the unpaid principal plus accrued interest less an allowance established to provide against probable losses on ultimate realization of the loan portfolio.

loan interest : Interest income from loans is recorded by the accrual method, except for impaired loans classified as non-accrual. Interest income from loans classified as non-accrual is recorded on a cash basis into revenue when there is no allowance for credit loss against the principal amount. In cases where an allowance for credit loss exists against the principal, interest received is used to reduce the principal.

loan fees : Fees relating to prepayment penalties and commercial commitment fees are considered an integral part of the yield earned on the loan and are deferred as unearned income and amortized to interest income over the term of the loan. Loans are stated net of unearned income.

allowances for credit losses : SMS maintains specific allowances for credit losses that reduce the book value of loans identified as impaired to their estimated realizable amounts. An impaired loan is classified as non-accrual at the earlier of:

- in the opinion of management, there is reasonable doubt as to the collectibility of principal or interest
- interest is 90 days past due unless there is adequate security
- interest is 180 days past due.

Estimated realizable amounts are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans, or by estimating the fair value of security underlying the loans and deducting costs of realization, or by estimating market prices for the loans.

SMS maintains a general allowance to absorb credit losses attributable to any deterioration of loan quality of the portfolio for which specific allowances cannot yet be determined. The general allowance is established based on payment arrears, known risks in the portfolio, historical credit loss experience and current economic conditions and trends.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

investments : Investments are recorded at the lower of estimated net realizable value and cost.

premises and equipment : Premises and equipment are recorded at cost less amortization which is provided using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings 40 to 50 years
Leasehold improvements 10 years
Computer and telephone equipment 3 years
Furniture and other equipment 5 to 10 years

dividends : Dividends on preferred shares classified as deposit liabilities are charged to income for the year in respect of which they are calculated and are included in interest expense.

Dividends on non-voting shares classified as equity are charged to retained earnings in the year that they are declared.

income taxes : SMS follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Net future income tax assets and liabilities are included in other assets or other liabilities, as applicable.

derivatives : SMS enters into interest rate swap agreements and index-linked contracts to manage its exposure to interest rate risk. Interest rate swaps are normally designated as hedges (reducing interest rate risk), and any gains or losses are recognized on the same basis as, and netted against, the interest income or expense related to the hedged item.

assets under administration : SMS administers certain assets in the capacity of custodian for others and loans that have been securitized and sold. Assets under administration are not the property of SMS and are not reflected in the consolidated financial statements. Revenue from service fees earned for administration is recorded in other income.

comparative figures : Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

2. cash resources :

	2001	2000
Cash on hand, deposits with banks and CUCBC, cheques and other items in transit	4,449	8,166
Demand and term deposits with CUCBC, due within one year	410,637	270,499
Bankers acceptances, commercial paper and other money market notes, due within one year	145,321	181,881
Accrued interest	3,835	5,933
	564,242	466,479

3. loans :

2001	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	1,497,448	204,565	374,936	2,076,949
Accrued interest	3,505	279	1,771	5,555
Total loans	1,500,953	204,844	376,707	2,082,504
Allowance for credit losses	1,837	1,450	2,631	5,918
	1,499,116	203,394	374,076	2,076,586
Impaired loans	4,266	181	2,806	7,253
Less amounts where loss is not expected	3,794	130	2,739	6,663
Specific allowances	472	51	67	590
General allowances	1,365	1,399	2,564	5,328
	1,837	1,450	2,631	5,918

3. loans (continued) :

2000	Residential mortgages	Personal loans	Commercial mortgages and loans	Total
Loan principal	1,493,085	187,820	320,131	2,001,036
Accrued interest	4,031	301	1,963	6,295
Total loans	1,497,116	188,121	322,094	2,007,331
Allowance for credit losses	1,851	1,306	2,167	5,324
	1,495,265	186,815	319,927	2,002,007
Impaired loans	4,115	73	2,866	7,054
Less amounts where loss is not expected	3,571	–	2,799	6,370
Specific allowances	544	73	67	684
General allowances	1,307	1,233	2,100	4,640
	1,851	1,306	2,167	5,324

	2001	2000
allowance for credit losses :		
Balance, beginning of year	5,324	5,013
Provision, before recoveries of $346 (2000 – $254)	2,244	1,800
	7,568	6,813
Write-offs	(1,650)	(1,489)
Balance, end of year	5,918	5,324
Percentage of total loans	0.28%	0.27%

4. other assets :

	2001	2000
investments		
CUCBC, shares	10,818	10,542
Inventure Solutions Inc., shares	4,422	–
	15,240	10,542
other		
Accounts receivable	1,557	1,587
Prepaid expenses	5,439	5,157
Future income taxes, net (Note 14)	3,200	1,445
Properties held for resale	1,566	–
Other	1,732	619
	13,494	8,808
	28,734	19,350

inventure solutions inc. : In 2001, Inventure Solutions Inc. was created to provide information technology support to its shareholders. SMS's ownership is 30% and the remaining 70% is held by Vancouver City Savings Credit Union. SMS holds common shares and preferred shares with a redemption price of $4,422,000.

5. premises and equipment :

	Cost	Accumulated amortization	**2001** Net book value	2000 Net book value
Land	3,402	–	3,402	3,402
Buildings	14,184	6,374	7,810	7,163
Leasehold improvements	6,511	3,428	3,083	3,045
Computer and telephone equipment	11,192	8,745	2,447	5,710
Furniture and other equipment	12,586	9,740	2,846	2,763
	47,875	28,287	19,588	22,083

6. deposits :

	2001	2000
Demand	344,946	274,246
Term	1,600,187	1,496,031
Registered savings plans	582,233	551,699
Preferred shares	10,024	9,356
Accrued interest	38,796	40,291
	2,576,186	2,371,623

Preferred shares included in deposits comprise an unlimited number of non-transferable, cumulative, redeemable voting shares with a par value of $1 each, issued as a condition of membership to a maximum of 1,000 shares per member. Each share is entitled to a cumulative dividend at a floating rate equal to SMS's average daily prime rate of interest during the year and is redeemable at par value on withdrawal of membership.

7. other liabilities :

	2001	2000
Accounts payable and accruals	10,480	8,699
Deferred loan fees	3,969	1,523
Interest payable	–	844
Deferred rental income	680	542
	15,129	11,608

8. borrowings :

Maturity date	Interest rate%	2001	2000
Credit Union Central of British Columbia			
June 18, 2001	6.60	–	15,000
June 18, 2001	6.60	–	5,000
August 21, 2001	7.52	–	5,000
		–	25,000

credit facility : SMS has established a credit facility of $50,000,000 (2000 – $50,000,000) with a Canadian chartered bank. The credit facility is secured by a first floating charge on certain residential mortgages ranking in priority to the security of Credit Union Central of British Columbia and must be repaid by June 30, 2003. As at December 31, 2001, borrowings were $Nil (2000 – $Nil) and a letter of credit of $5,000,000 was outstanding.

credit union central of british columbia : The borrowings are secured by a demand debenture in the amount of $57,000,000 in favour of Credit Union Central of British Columbia, which creates a floating charge on assets and undertakings of SMS, and an assignment of book debts. Interest is payable semi-annually. As at December 31, 2001, letters of credit of $158,000,000 (2000 – $142,750,000) were outstanding.

syndicated bank borrowings : Borrowings syndicated by four financial institutions, for up to $115,000,000 (2000 – $115,000,000), are secured by a $230,000,000 floating charge and a security interest on assets and undertakings of SMS. The syndicated bank borrowings are subordinated in right of repayment of borrowings to a Canadian chartered bank and Credit Union Central of British Columbia up to $300,000,000. Repayment of individual loans provided under these borrowings is required on or before July 4, 2005. This maturity date may be extended by mutual agreement. Interest is payable every 30 days for loans due within 6 months and not less than semi-annually for loans of longer duration. As at December 31, 2001, syndicated bank borrowings outstanding were $Nil (2000 – $Nil).

9. subordinated notes : Unsecured notes in the amount of $Nil (2000 – $10,000,000) bear interest at 8.98% per annum, are payable semi-annually and mature on October 4, 2006. These notes were redeemed on October 4, 2001.

10. share capital :

authorized :

non-voting shares : An unlimited number of transferable non-voting shares with a par value of $0.005 each, fully participating in earnings after payment of dividends on preferred shares included in deposit liabilities.

first preferred shares : An unlimited number of retractable first preferred shares without par value. The terms and conditions including dividends, are set at the discretion of the board of directors.

issued and outstanding :

non-voting shares :	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Beginning of year	5,109,894	321	5,454,659	319
Repurchased	(268,500)	(1)	(345,100)	(2)
Issued	30,771	289	335	4
End of year	4,872,165	609	5,109,894	321

first preferred shares : As at December 31, 2001, there were no first preferred shares issued and outstanding.

stock options : Certain key employees have been granted options to purchase non-voting shares at prices based on the market price of the shares as determined on the date of the grant. The total stock options outstanding are as follows:

stock options outstanding :			2001	2000
Year granted	Price per share	Expiry date	Number of shares	Number of shares
1992	6.00	October 28, 2002	–	11,000
1993	9.88	November 3, 2003	11,000	11,000
1994	11.00	November 1, 2004	15,000	17,000
1995	8.50	October 30, 2005	28,000	32,000
1996	9.13	January 22, 2006	8,000	8,000
1996	11.40	October 28, 2006	40,000	44,000
1997	12.05	October 27, 2007	40,000	44,000
1998	15.25	May 19, 2003	90,000	90,000
1998	15.25	July 26, 2003	45,000	60,000
			277,000	317,000
Employee stock option plan			20,480	19,797
			297,480	336,797

11. capital requirements : The Financial Institutions Act requires SMS to maintain a capital base which is adequate in relation to its level of business activities. The level of capital required is based on a prescribed percentage of the total value of its risk-weighted assets, each asset of SMS being assigned a risk factor based on the probability that a loss may be incurred on ultimate realization of that asset.

The Financial Institutions Act regulations prescribe that the minimum required capital base is 8% of the risk-weighted value of assets. At December 31, 2001, SMS had a capital base of 9.3% (2000 – 9.6%) of the total value of risk-weighted assets.

12. other income :

	2001	2000
Account service fees	7,213	7,138
Commissions	5,343	5,977
Other	1,985	1,583
Gain on sale of insurance agency assets and business	–	1,926
	14,541	16,624

13. general operating expenses :

	2001	2000
Bonding and other insurance	374	324
Capital taxes	1,055	1,031
Chequing service charges	1,529	1,418
Data processing	6,761	4,946
Deposit insurance assessment	937	854
Dues, CUCBC	400	406
Marketing	2,375	2,827
Professional and other services	2,611	2,300
Stationery, telephone and postage	2,461	2,597
Sundry	3,256	2,546
	21,759	19,249

14. provision for income taxes :

The components of income tax expense are as follows:

	2001	2000
Current income tax expense	3,749	3,097
Future income tax expense	(1,755)	340
Provision for income taxes	1,994	3,437

The total provision for income taxes in the statement of earnings and retained earnings is at a rate less than the combined federal and provincial statutory income tax rate of the applicable year for the following reasons:

	2001	2000
Combined federal and provincial statutory income tax rate	44.6%	45.6%
Change in rate due to:		
Rate reduction applicable to credit unions	(27.0)	(27.4)
Other	(3.4)	(2.0)
Effective income tax rate	14.2%	20.2%

The components of future income tax balances are as follows:

	2001	2000
Allowance for credit losses	1,523	1,100
Deferred items	1,118	403
Other, net	559	(58)
Net future income tax asset	3,200	1,445

15. commitments :

lease commitments : SMS occupies branch premises under long term leases extending to 2006. Aggregate basic annual lease payments for each of the next five years are:

2002	$ 1,853,000
2003	$ 1,864,000
2004	$ 1,674,000
2005	$ 1,124,000
2006	$ 518,000

information technology commitment : Inventure Solutions Inc. (Note 4) is the main information system service provider and operates under a five-year agreement expiring in 2006.

off-balance sheet commitments : In the normal course of business, SMS enters into various off-balance sheet commitments such as letters of credit and derivative contracts. The letters of credit and the notional principal amounts for derivative contracts reported below are not reflected in the consolidated balance sheets. Details of these are as follows:

loan commitments : At December 31, 2001, SMS had commitments to extend credit on behalf of customers in the amount of $190,000,000 (2000 – $166,000,000).

letters of credit : At December 31, 2001, SMS had outstanding letters of credit on behalf of customers in the amount of $5,425,000 (2000 – $4,186,000). These letters of credit were fully secured by monies on deposit.

derivative contracts :

interest rate swaps : At December 31, 2001, SMS had outstanding interest rate swap contracts in the notional principal amount of $Nil (2000 – $Nil). Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged and are not indicative of a credit exposure.

index-linked contracts : At December 31, 2001, SMS had outstanding index-linked contracts in the notional principal amount of $13,635,000 (2000 - $14,063,000). Index-linked contracts are transactions in which for a fee SMS can manage its exposure to changes in the value of index-linked deposit products. Principal amounts are not exchanged and are not indicative of a credit exposure.

16. interest rate sensitivity : Interest rate risk is the sensitivity of SMS's financial condition to movements in interest rates.

Maturity dates substantially coincide with interest adjustment dates. Amounts with floating rates, or due on demand, are classified as maturing within three months, regardless of maturity. Amounts that are not interest sensitive are grouped together, regardless of maturity.

The table below does not incorporate management's expectation of future events where repricing or maturity dates of certain loans and deposits differ significantly from the contractual dates.

	interest sensitive balances				
2001	Within 3 months	4 months to 1 year	Over 1 to 5 years	Not interest sensitive	Total
assets :					
Cash resources	470,958	85,000	–	8,284	564,242
Yield	2.43%	3.79%	–		
Loans	628,381	249,304	1,196,722	2,179	2,076,586
Yield	5.34%	6.49%	6.50%		
Other	–	10,818	–	37,504	48,322
Yield	–	11.00%	–		
	1,099,339	345,122	1,196,722	47,967	2,689,150
liabilities and shareholders' equity :					
Deposits	1,165,741	778,107	593,216	39,122	2,576,186
Yield	2.88%	3.59%	4.86%		
Other	–	–	–	112,964	112,964
Yield	–	–	–		
	1,165,741	778,107	593,216	152,086	2,689,150
Interest sensitivity position	(66,402)	(432,985)	603,506	(104,119)	–

	interest sensitive balances				
2000	Within 3 months	4 months to 1 year	Over 1 to 5 years	Not interest sensitive	Total
assets :					
Cash resources	302,380	150,000	–	14,099	466,479
Yield	5.83%	5.98%	–		
Loans	526,552	192,367	1,282,117	971	2,002,007
Yield	8.31%	7.17%	6.85%		
Other	–	10,542	–	30,891	41,433
Yield	–	11.00%	–		
	828,932	352,909	1,282,117	45,961	2,509,919
liabilities and shareholders' equity :					
Deposits	1,005,733	728,989	596,223	40,678	2,371,623
Yield	4.55%	5.21%	5.56%		
Borrowing and subordinated notes	–	35,000	–	–	35,000
Yield	–	7.41%	–		
Other	–	–	–	103,296	103,296
Yield	–	–	–		
	1,005,733	763,989	596,223	143,974	2,509,919
Interest sensitivity position	(176,801)	(411,080)	685,894	(98,013)	–

17. fair values of financial instruments :
The estimated fair values of financial instruments are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, not all financial instruments are readily marketable. As a result, the estimates of fair value are subjective and should not be considered precise.

No fair values have been determined for premises and equipment, goodwill or any other asset or liability that is not a financial instrument. The fair values of cash resources, variable rate loans and deposits, other assets and liabilities are assumed to equal their book values. The fair values of fixed rate loans and deposits are determined by discounting the expected future cash flows at the estimated current market rates for loans and deposits with similar characteristics.

The difference between the book and fair values of SMS's financial instruments is due primarily to changes in interest rates. As SMS normally holds these instruments to maturity, the book values have not been adjusted to reflect the differences.

18. other information : At December 31, 2001, outstanding loans to directors, officers and employees totalled $38,940,000 (2000 – $36,533,000), which included 304 mortgages totalling $34,533,000 and 880 other loans totalling $4,407,000.

During the year, directors, in their capacity as directors, received remuneration of $150,000 (2000 – $150,000).

During the year, in the normal course of business, SMS paid $165,000 for professional services to and received $92,000 in rental income from a professional firm, of which a partner is a director of SMS.

During the year, SMS transferred $4,422,000 of information technology equipment at net book value in exchange for preferred shares and paid fees of $1,991,000 to Inventure Solutions Inc.

	2001			2000		
	Book value	Fair value	Difference	Book value	Fair value	Difference
assets :						
Cash resources	564,242	565,075	833	466,479	466,690	211
Loans	2,076,586	2,119,910	43,324	2,002,007	1,995,391	(6,616)
Other	12,375	12,375	–	12,129	12,129	–
liabilities :						
Deposits	2,576,186	2,597,382	21,196	2,371,623	2,367,267	(4,356)
Borrowings	–	–	–	25,000	24,854	(146)
Subordinated notes	–	–	–	10,000	10,004	4
Other	10,480	10,480	–	9,543	9,543	–
derivative contracts :						
Index-linked contracts	–	880	880	–	7,377	7,377

19. subsequent event : On March 4, 2002, SMS entered into a Letter of Intent (the "Letter") with Coast Capital Savings Credit Union (CCS). The transaction contemplated by the Letter is a business acquisition by asset transfer under section 16 of the Credit Union Incorporation Act of British Columbia in which CCS acquires all of the rights, property and assets and assumes all of the obligations and liabilities of SMS.

The Letter provides for each holder of SMS' non-voting shares to receive $21 per share in cash on closing. The membership shares of SMS will be exchanged for shares in CCS.

Completion of the transaction contemplated by the Letter is contingent upon satisfaction of certain conditions contained in the Letter including negotiation and execution of a definitive business combination agreement in respect of the transaction, the receipt of requisite regulatory, creditor and other third party approvals, and the approval by the members and non-voting shareholders of SMS.

The Letter and an agreement dated February 6, 2002, provide that if either party fails to proceed with the business combination for any reason other than satisfaction of certain conditions referred to above, then the party failing to proceed will be required to pay to the other party $1,500,000 plus the other party's legal, consulting, advisory and other out-of-pocket expenses.

The definitive business combination agreement will preserve a fiduciary out in favour of the board of SMS in the event of an unsolicited superior transaction.

Assuming receipt of all requisite member, shareholder, regulatory, creditor and third party approvals and consents, the transaction is expected to close at the end of June 2002.

quarterly financial data

selected quarterly consolidated financial data :

Unaudited *(in thousands of dollars)*

	Dec 31/01	Dec 31/00	Sep 30/01	Sep 30/00	Jun 30/01	Jun 30/00	Mar 31/01	Mar 31/00
balance sheet :								
assets								
Cash resources	564,242	466,479	254,344	246,184	258,161	251,961	252,497	242,180
Loans	2,076,586	2,002,007	2,059,140	2,000,041	2,035,789	1,972,906	2,016,674	1,944,652
Other	28,734	19,350	25,584	18,794	25,029	17,833	19,814	19,134
Premises and equipment	19,588	22,083	19,158	21,463	19,043	21,477	25,502	21,170
	2,689,150	2,509,919	2,358,226	2,286,482	2,338,022	2,264,177	2,311,487	2,227,136
liabilities								
Deposits	2,576,186	2,371,623	2,191,615	2,009,106	2,110,687	1,944,410	2,106,468	1,943,027
Other	15,129	11,608	14,389	12,926	12,958	16,796	10,858	8,126
Borrowings	–	25,000	47,000	167,000	110,000	207,000	91,000	180,000
	2,591,315	2,408,231	2,253,004	2,189,032	2,233,645	2,168,206	2,208,326	2,131,153
Subordinated notes	–	10,000	10,000	10,000	10,000	10,000	10,000	10,000
shareholders' equity								
Share capital	609	321	598	318	534	319	330	319
Retained earnings	97,226	91,367	94,624	87,132	93,843	85,652	92,831	85,664
	97,835	91,688	95,222	87,450	94,377	85,971	93,161	85,983
	2,689,150	2,509,919	2,358,226	2,286,482	2,338,002	2,264,177	2,311,487	2,227,136
income statements :								
Interest income	37,819	42,075	39,263	40,505	39,371	38,870	39,722	37,634
Interest expense	22,555	27,566	24,229	26,347	24,892	25,102	26,218	24,796
Net interest income	15,264	14,509	15,034	14,158	14,479	13,768	13,504	12,838
Provision for credit losses	549	413	435	370	497	385	417	378
	14,715	14,096	14,599	13,788	13,982	13,383	13,087	12,460
Other income	4,298	5,644	3,366	3,579	3,141	3,636	4,134	4,198
	19,013	19,740	17,965	17,367	17,123	17,019	17,221	16,658
Non-interest expenses	17,017	14,384	13,605	13,189	13,239	13,301	13,383	12,922
	1,996	5,356	4,360	4,178	3,884	3,718	3,838	3,736
Provision for income taxes[1]	(2,872)	(1,221)	1,773	1,673	1,555	1,479	1,538	1,506
Net income	4,868	6,577	2,587	2,505	2,329	2,239	2,300	2,230
Earnings per non-voting share								
Basic	0.99	1.27	0.52	0.48	0.46	0.42	0.45	0.41
Fully diluted	0.93	1.19	0.49	0.45	0.44	0.39	0.42	0.39
Non-voting shares in thousands								
As at basic	4,872	5,110	4,947	5,212	5,050	5,309	5,052	5,418
As at fully diluted	5,169	5,446	5,244	5,548	5,355	5,643	5,391	5,747
Average basic	4,910	5,161	4,999	5,261	5,051	5,364	5,081	5,437
Average fully diluted	5,207	5,497	5,300	5,595	5,373	5,695	5,419	5,763

[1] The fourth quarter income tax amount reflects the change from a 40% tax rate estimate in the first three quarters to an actual 14.2% for the year (2000 – 20.2%).

ten-year overview :

years ended December 31 *(in thousands of dollars)*

	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
balance sheet :										
Assets										
Cash resources	564,242	466,479	345,410	317,727	223,284	192,745	173,392	149,428	149,692	161,400
Securities	–	–	–		–	27,217	57,178	44,873	–	–
Loans	2,076,586	2,002,007	1,928,833	1,803,044	1,668,350	1,548,486	1,444,649	1,221,162	1,056,657	964,559
Other	28,734	19,350	17,719	16,977	15,027	17,254	16,514	15,137	15,361	14,708
Premises & equipment	19,588	22,083	21,143	20,962	22,716	22,465	22,794	18,471	15,412	14,499
	2,689,150	2,509,919	2,313,105	2,158,710	1,929,377	1,808,167	1,714,527	1,449,071	1,237,122	1,155,166
Liabilities										
Deposits										
Demand	354,970	283,606	271,356	278,667	280,529	311,254	281,187	274,229	289,041	323,102
Term	1,624,117	1,520,941	1,303,275	1,192,820	916,888	785,605	772,415	652,222	531,321	465,617
RRSP	597,099	567,076	560,230	537,967	525,740	522,402	469,592	371,643	313,653	268,781
	2,576,186	2,371,623	2,134,861	2,009,454	1,723,157	1,619,261	1,523,194	1,298,094	1,134,015	1,057,500
Other	15,129	11,608	9,098	11,133	13,073	12,369	8,705	10,141	10,439	13,127
Borrowings	–	25,000	75,000	50,000	110,000	100,000	123,000	84,000	45,000	45,000
	15,129	36,608	84,098	61,133	123,073	112,369	131,705	94,141	55,439	58,127
Subordinated notes	–	10,000	10,000	10,000	10,000	10,000	–	3,000	3,000	3,000
Shareholders' equity										
Share capital	609	321	319	275	276	276	208	76	76	28
Retained earnings	97,226	91,367	83,827	77,848	72,871	66,261	59,420	53,760	44,592	36,511
	97,835	91,688	84,146	78,123	73,147	66,537	59,628	53,836	44,668	36,539
	2,689,150	2,509,919	2,313,105	2,158,710	1,929,377	1,808,167	1,714,527	1,449,071	1,237,122	1,155,166
income statements :										
Interest income	156,573	159,517	143,617	136,807	126,973	138,562	134,507	106,397	100,150	102,672
Interest expense	97,894	103,811	94,210	87,344	83,084	95,099	96,530	67,079	64,868	70,983
Net interest income	58,679	55,706	49,407	49,463	43,889	43,463	37,977	39,318	35,282	31,689
Provision for credit losses	1,898	1,546	1,810	2,151	984	1,031	466	491	492	527
	56,781	54,160	47,597	47,312	42,905	42,432	37,511	38,827	34,790	31,162
Other income	14,541	16,624	16,572	16,295	15,068	13,235	11,975	11,591	10,598	10,017
	71,322	70,784	64,169	63,607	57,973	55,667	49,486	50,418	45,388	41,179
Non-interest expenses	57,244	53,796	53,252	50,201	46,135	43,584	39,059	35,353	32,583	30,537
Net income before income taxes	14,078	16,988	10,917	13,406	11,838	12,083	10,427	15,065	12,805	10,642
Income taxes										
Current	3,749	3,097	2,402	4,456	3,378	3,143	2,050	3,328	3,334	3,425
Future	(1,755)	340	354	(1,155)	(415)	(165)	456	313	(302)	(1,080)
	1,994	3,437	2,756	3,301	2,963	2,978	2,506	3,641	3,032	2,345
Net income	12,084	13,551	8,161	10,105	8,875	9,105	7,921	11,424	9,773	8,297
financial statistics :										
Asset growth in percent	7.14	8.51	7.15	11.90	6.70	5.50	18.30	17.10	7.09	13.86
Loan growth in percent	3.73	3.79	6.98	8.10	7.70	7.20	18.30	15.60	9.54	14.59
Deposit growth in percent	8.63	11.09	6.24	16.61	6.40	6.31	17.34	14.47	7.24	11.85
Percentage of average assets										
Net interest income	2.40	2.30	2.37	2.58	2.46	2.45	2.41	2.97	2.92	2.90
Other income	0.60	0.82	0.66	0.69	0.69	0.74	0.76	0.88	0.89	0.92
Non-interest expenses	2.34	2.32	2.44	2.50	2.47	2.45	2.48	2.67	2.73	2.82
Percentage return on										
Average assets	0.49	0.58	0.37	0.50	0.47	0.51	0.50	0.86	0.81	0.76
Average NV equity	12.79	15.57	10.08	13.31	12.70	14.42	14.02	23.26	24.19	25.83
Book value per NV share in dollars	20.08	17.94	15.43	14.33	12.92	11.75	10.54	9.55	7.92	6.49
Earnings per NV share in dollars	2.42	2.58	1.50	1.81	1.57	1.61	1.40	2.03	1.73	1.47
Earnings per NV share fully diluted in dollars	2.28	2.42	1.41	1.74	1.53	1.59	1.39	2.02	1.72	1.47

corporate governance

corporate governance : Good corporate governance remains a priority for Surrey Metro Savings, its Board of Directors and its executive team. The guidelines for effective corporate governance established by The Toronto Stock Exchange set the standards for the practices followed in directing and managing the business and affairs of the credit union. Appropriate structures, processes and policies are in place to ensure that high standards are maintained, and to promote ongoing improvement in Board effectiveness. Our strong commitment to these principles and values is what make us successful and well governed.

the board of directors : The Board of Directors is central to an effective system of corporate governance. The Board is responsible for the stewardship of the company, which it discharges by establishing policy and supervising management. Authority and responsibility for day-to-day business and affairs of the credit union is delegated by the Board to management.

The members of Surrey Metro Savings, on a one-member, one-vote basis, elect the nine member Board of Directors. The maximum length for a director's single term of office is three years. A director may serve more than one term, but not more than three consecutive three-year terms. Each year, three of the nine director seats come up for election.

The Board has no related or inside directors. The nine directors are independent of management and are free from any interest, business or other relationships that could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the credit union.

New Board members receive a comprehensive director's manual and a formal director orientation over two separate days. Additional one-on-one information sessions are held with senior management as deemed appropriate. Credit union legislation in BC mandates that all new directors elected or appointed for the first time must complete seven computer-based training tutorials (CBT) and Workshop #1 within the first year of their election or appointment. The mandatory tutorials consist of: an Overview of the Credit Union System; Board's Roles and Responsibilities; Director's Roles; Legal Basics; Financial Statements; Asset-Liability Management; and Monitoring Credit Union Performance. In Workshop #1, directors discuss and apply the concepts learned in the seven computer-based tutorials. In the second year after election or appointment to the Board, directors must complete a Business Simulation Game and participate in Workshop #2. This workshop gives directors an opportunity to discuss everything they've learned with other participants and a facilitator and apply it to their own environment. Optional training includes Leadership; Strategic Planning; Risk Management; Board Development and Evaluation; Management, Recruitment, Performance Planning and Evaluation; Credit; Audit; Financial Management and Analysis II; and Making Meetings Work.

The Board meets six times each year, and holds additional meetings as required. The Board and executive management devote two full days to strategic planning. The three-year strategic plan is reviewed and approved by the Board at that session. Strategies and their implementation are discussed at the regular Board meetings. The Board meets once a year without management when it assesses the performance of the CEO, and also meets in-camera at other times deemed appropriate or as requested by directors.

The Board undertakes an annual self-assessment program, with results tabulated and provided by an outside consultant.

The Board of Directors, Board committees, or an individual director may engage an outside advisor at the expense of the company with the authority of the Governance Committee.

role of the board and its committees : Terms of reference are in place which clearly define the roles of the Board of Directors, Board committees and individual directors.

The Board's role is to supervise the management of the business and affairs of the company. The Board oversees the company's

strategic direction and the operational implementation of business plans. Long-term goals and creative strategies are developed as part of the annual strategic planning process. Through an annual budgeting process later in the year, the Board adopts the operating budget, capital budget and business plans for the coming year, and then monitors management's progress through a quarterly reporting and review process. The Board ensures that the risk management framework implemented by management incorporates a prudent and professional approach to risk.

The investor and shareholder relations program involves providing information with respect to reported financial results and other announcements by the company to a broad spectrum of investors and other stakeholders. Shareholder concerns of a significant nature are directed to the CEO and CFO for information and resolve, and management reports to the Board on these matters and other major shareholder and investor matters.

The Board delegates certain work to its six standing committees: Executive, Audit, Human Resources, Conduct Review, Governance, and Investment & Loan. This allows in-depth analysis of issues by the Committees and more time for the full Board to discuss and debate items of business. Each committee is comprised of at least three outside directors and the Board Chair serves ex-officio on those committees to which he/she has not otherwise been elected or appointed. The CEO also serves ex-officio on each committee, and each committee has available to it as a resource such members of management as may be appropriate. The Board determines the powers and responsibilities of each committee and reviews the authority and mandate of each committee annually.

The Executive Committee acts as a sounding board for the CEO on matters requiring Board involvement. This committee also acts in emergency circumstances as required between meetings of the full Board of Directors, and is responsible for representing the company in certain credit union system and public relations matters.

The Audit Committee is responsible for monitoring corporate compliance and influencing quality financial reporting and sound internal controls. The committee also assesses the accounting principles and underlying risks, and assesses the adequacy and effectiveness of internal controls. Its mandate is to annually:

- review the audit engagement letter, audit plans, timing and scope of the external audit;
- review the annual audit report, audited financial statements, management's discussion and analysis, accompanying media releases and quarterly reports;
- review inspection reports prepared by the Superintendent of Financial Institutions and the recommended response;
- review all financial information issued by the company and its subsidiaries prior to publication in the annual report, annual information form, or prospectus;
- review the recommendations of the officers as to the reappointment or appointment of the external auditors;
- make recommendations to the Board with respect to the appointment and remuneration of external auditors to be appointed at each Annual General Meeting.

The Human Resources Committee oversees the formal evaluation of the CEO, reviews and assesses the CEO's achievement of corporate objectives, and also analyzes the policies and strategies with respect to the payment of salaries, benefits and incentive compensation. The committee annually reviews the succession plan for senior management and the CEO, including the appointment, training and monitoring of senior management.

The Conduct Review Committee ensures that policies and procedures are in place to deal with related party transactions, conflicts of interest, and disclosure of identity to customers as it relates to third-party transactions.

The Governance Committee ensures that the vision and strategic direction of the company is reviewed annually and that the Board and its committees carry out their functions in accordance with due process. In addition, this committee assesses the effectiveness of the Board and its committees, and the contributions of each individual director. The Governance Committee makes recommendations regarding the effectiveness of the system of corporate governance, Board programs and meetings, and the relationship of the Board to management. The strength of the Board is built upon the diversity, background, qualities, skills and experience of its directors. The committee also has a mandate to identify and recruit candidates suitable for nomination as directors, in addition to those names which come forward from the general membership. The Committee provides its endorsement of some or all of the candidates, based on its evaluation of the current Board composition and areas of expertise to be filled. The Governance Committee is mandated to periodically review the remuneration paid to directors in recognition of their role on the Board. The members of Surrey Metro Savings must approve changes in set remuneration.

The Investment & Loan Committee is mandated to ensure that the company adheres to prudent policies in making investment and lending decisions, in giving guarantees and committing the company to other financial obligations, in writing down the value of investments and loans on its books, and in managing its investments and loans, including its subsidiary companies.

We are pleased to report that our approach to corporate governance is consistent with the guidelines of The Toronto Stock Exchange. We will continue to review and assess these policies, adapting them to changing needs and circumstances.

board of directors

Back row (left to right):
Directors - Steven Moore, Marvin Shaffer, Amber Goddyn, Douglas Brawn, John Jansen, Gary McCarthy.

Front row (left to right):
Frank Harper - Senior Vice-Chairman, Tom Kirstein - Board Chairman, Douglas Stone - Vice-Chairman.



The first date appearing after the name of each director indicates the year in which the individual became a director. The second date is the year in which their term of office as a director expires.

Tom R. Kirstein [1]
Chairman
1998 - 2004
Senior Partner
KNV, Chartered Accountants

Frank L. Harper [1,5,6]
Senior Vice Chairman
1995 - 2004
President
Sphere Financial Ltd.

Douglas T. Stone [1,3,4]
Vice Chairman
1994 - 2002
Director of Operations
City of White Rock

Douglas H. Brawn [5,6]
2000 - 2003
Partner
Brawn, Karras & Sanderson

Amber J. Goddyn [2,4]
1997 - 2003
Notary Public

John Jansen [5,6]
1999 - 2002
President
Fraser Pacific Group of Companies

Gary C. McCarthy [2,3]
2000 - 2003
President
On-Site West

Steven D. Moore [4,6]
1999 - 2002
Vice President
Moore & Associates

Marvin H. Shaffer [2,3]
2001 - 2004
President
Marvin Shaffer & Associates

Committees of the Board of Directors

1 Executive
2 Governance
3 Human Resources
4 Conduct Review
5 Investment & Loan
6 Audit

Committee membership indicated by numbers following names.

executive officers

Back row (left to right):
Dave Finner, Herb Jamieson, Lynn Roberts, Sheila Baker, Nancy McNeill, Gary Adamo, Ken Hahn, Rod Marr.

Front row (left to right):
Hermann Bessert, Lloyd Craig, Bob Caldwell.
Missing: Lawrie Ferguson and J. Patrick Hagan.



Lloyd M. Craig
President &
Chief Executive Officer

Hermann G. Bessert
Chief Financial Officer

Robert H. Caldwell
Chief Operating Officer

J. Patrick Hagan
Vice President
Information Systems

Kenneth G. Hahn
Vice President
Human Resources

Rodney A. Marr
Vice President
Credit

Lawrie M. Ferguson
Assistant Vice President
Marketing

David F. Finner
Assistant Vice President
Branch Operations

Herb J. Jamieson
Assistant Vice President
Branch Operations

Nancy J. McNeill
Assistant Vice President
Administration

L. Lynn Roberts
Assistant Vice President
Service Quality

Gary B. Adamo
Assistant Vice President
Wealth Management

Sheila R. Baker
Assistant Vice President
Direct Services

corporate information

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f. 604 517-7405
www.metrosavings.com

shareholder/investor information
Norman E. Krannitz
Manager, Treasury
t. 604 517-7433

corporate secretary
Cyndie L. Kremyr
Manager, Corporate Communications & Corporate Secretary
t. 604 517-7403

registrar and transfer information
Computershare Investor Services (formerly Montreal Trust Co.)
510 Burrard Street Vancouver
BC V6C 3B9 t. 604 661-0222

auditors
Grant Thornton LLP
6th Floor, 628 Sixth Avenue
New Westminster BC V3M 6Z1

annual meeting
The 55th Annual General Meeting will be held on Wednesday, May 22, 2002 at 7:00 pm
Newlands Golf & Country Club,
21025 - 48th Avenue
Langley BC Canada

stock exchange listing
Toronto Stock Exchange (TSE)
Symbol: SMS

dividend
Surrey Metro Savings' current policy is to declare semiannual dividends for its non-voting shares payable on December 1 and June 1 to shareholders of record on November 1 and May 1.

change is good.

SurreyMetroSavings

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Imagine A New Spirit of Community

Surrey Metro Savings is one of only 550 Canadian companies to earn recognition as a "Caring Company" by the Imagine Program, an initiative of the Canadian Centre for Philanthropy.